

# Report of the auditor-general to the Free State Legislature and council of the parent municipality on Centlec (SOC) Limited

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Centlec (SOC) Limited set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and the Companies Act, 2008 (Act No. 71 of 2008), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a

basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Centlec (SOC) Limited as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA, and the Companies Act.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

8. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2015-16 in the financial statements of the Centlec (SOC) Limited at, and for the year ended, 30 June 2015.

## Material impairments

9. As disclosed in note 4 to the financial statements, management provided for the impairment of consumer receivables of R324 038 182 (2015: R410 189 162).

## Material losses

10. As disclosed in note 52 to the financial statements, material losses of R180 249 104 (13,23%) (2015: R154 232 114 (12,89%)) were incurred as a result of theft, vandalism, faulty meters and variances in monthly consumption estimates.

## Irregular expenditure

11. As disclosed in note 51 to the financial statements, the municipal entity incurred irregular expenditure of R24 754 940 (2015: R33 548 425) in 2015-16 due to non-compliance with Supply Chain Management (SCM) Regulations.

## Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Other reports required by the Companies Act

13. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the director's report, the audit committee's report and the company secretary's certificate for the purpose of determining whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and, accordingly, I do not express an opinion on them.

## Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## Unaudited supplementary information

15. The appropriation statement set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

## Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on them.

## Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the municipal entity for the year ended 30 June 2016:
- Programme 5: engineering – wires on pages x to x
  - Programme 6: engineering – retail on pages x to x.
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for Managing Programme Performance Information* (FMPPi).

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

20. The material findings in respect of the selected programmes are as follows:

### **Programme 6: engineering – retail**

#### Usefulness of reported performance information

21. The FMPPPI requires performance targets be specific in clearly identifying the nature and required level of performance. A total of 40% of the targets were not specific.

22. The FMPPPI requires performance indicators be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 40% of the indicators were not well defined.

#### Reliability of reported performance information

23. The FMPPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Overall, significantly important targets in relation to the overall mandate of the entity were not reliable because significantly important targets were not valid, accurate and complete when compared to the source information or evidence provided. This is due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

24. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programme:

- Programme 5: engineering – wires

### **Additional matters**

25. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

#### Achievement of planned targets

26. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x, x and x of this report.



## Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 5: engineering – wires. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

## Compliance with legislation

28. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Annual financial statements

29. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current liabilities, non-current liabilities, net assets, revenue, expenditure, taxation and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

30. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.
31. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.

## Procurement and contract management

32. Construction contracts were awarded to contractors that did not qualify for the contract, in contravention of regulations 17 and 25(7A) of the Construction Industry Development Board (CIDB).

## Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

34. The municipal entity did not ensure that vacancies were timeously filled and that succession planning took place at the finance, asset, SCM and organisational performance management directorates, which resulted in non-compliance with applicable legislation.

## Financial and performance management

35. Effective performance systems, processes and procedures, as well as the management thereof, had not been adequately developed and implemented. Daily and monthly controls over information management were compromised and the reviews performed to ensure the reliability of the information used in reporting were insufficient. The financial statements were not adequately reviewed for accuracy prior to submission for auditing, resulting in material corrections to be made.
36. Inadequate monitoring of controls over the implementation of the SCM policy gave rise to a significant number of errors, resulting irregular expenditure being incurred.

## Other reports

37. I draw attention to the following engagements that could potentially have an impact on the municipal entity's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

## Investigations

38. An external investigation into inadequate consultancy services provided to the entity was still in progress at year-end. The investigation covers the period from August 2005 to July 2010.

AUDITOR - GENERAL

Bloemfontein

6 December 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*